

REBUTTAL TESTIMONY

of

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Financial Analysis Division

Illinois Commerce Commission

Ameren Illinois Company d/b/a Ameren Illinois

Proposed General Increase in Gas Rates

Docket No. 13-0192

August 7, 2013

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I. Witness Identification

Q. Please state your name and business address.

A. My name is Christopher L. Boggs and my business address is 527 E. Capitol Avenue, Springfield, IL 62701.

Q. Are you the same Christopher L. Boggs who submitted direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony in this case?

A. The purpose of my rebuttal testimony is to respond to portions of Ameren ("AIC", "Ameren" or "Company") witness Mr. Leonard Jones' rebuttal testimony (Ameren Ex. 23.0), Illinois Industrial Energy Consumers ("IIEC") witness, Mr. Brian Collins' direct testimony (IIEC Ex. 2.0) and the direct testimonies of Mr. Scott Rubin (AG/CUB Ex. 3.0) and Mr. David Efron (AG/CUB Ex. 2.0), witnesses for the People of the State of Illinois ("AG") and the Citizens Utility Board ("CUB") (collectively "AG/CUB").

18

19 **Q. Are you sponsoring any exhibits or attachments in support of your rebuttal**
20 **testimony?**

21 A. No.

22

23 **II. Response to Company Witness, Mr. Leonard Jones**

24 **Q. Have you reviewed the rebuttal testimony of Ameren witness, Mr. Leonard**
25 **Jones (Ameren Ex. 23.0)?**

26 A. Yes, I have.

27

28 **Q. Does Mr. Jones still advocate for an 85% Straight Fixed Variable (“SFV”)**
29 **rate design?**

30 A. Yes, he does. Mr. Jones advocates increasing the fixed cost recovery through
31 the monthly Customer Charge for GDS-1 and GDS-2 customers from 80% to
32 85%. (Ameren Ex. 23.0, 2:38-43.)

33

34 **Q. Why does Mr. Jones advocate increasing the fixed cost recovery through**
35 **the monthly Customer Charge from 80% to 85%?**

36 A. Mr. Jones argues that increasing the fixed cost recovery for GDS-1 and GDS-2
37 customers through the monthly Customer Charge from 80% to 85% will mitigate
38 forward-looking revenue erosion caused by customer usage degradation. He
39 indicates that installation of more energy efficient equipment and appliances and
40 consumer participation in energy efficiency measures will decrease usage and,
41 thus, revenues for the Company over time. (Ameren Ex. 23.0, 3:44-50.)

42

43 **Q. Does Mr. Jones agree with your statement in direct testimony that the**
44 **Company's proposal to increase fixed cost recovery is "an endeavor to**
45 **attain greater guaranteed revenue"?**

46 A. No, he does not. He states that "[e]nhancing the SFV rate design only maintains
47 revenue stability. Revenue is not guaranteed under the SFV design." (*Id.* at
48 3:53-54.)

49

50 **Q. How do you respond?**

51 A. Although Mr. Jones disagrees with the description that I used, he actually
52 concedes my point, which is that the Company's proposal to increase the
53 percentage of fixed cost recovery through the monthly Customer Charge is an
54 endeavor to protect future revenue in anticipation of declining usage.

55

56 **Q. Does Mr. Jones provide compelling reasons why the Commission should**
57 **further enhance the protection of revenues from the effects of declining**
58 **usage?**

59 A. No. In fact, Mr. Jones provides information in his rebuttal testimony that
60 contradicts his assumption of continued declining usage. For example, the graph
61 entitled "Residential Use per Heating Degree Day (HDD) and Per Customer Per
62 HDD" provided in Mr. Jones' rebuttal testimony shows that use per customer per
63 HDD has actually increased in 2011 and 2012 over the previous two years.
64 (Ameren Ex. 23.0, 4.) This is in spite of the fact that these two years (2011 and
65 2012) in my opinion had mild winters compared to the years prior to 2011. (*Id.* at
66 4:77.) Mr. Jones also claims that this trend will continue into the foreseeable
67 future. (*Id.* at 4:78.)

68

69 **Q. Has Ameren provided other data that conflicts with Mr. Jones' claim that**
70 **declining sales will continue into the foreseeable future?**

71 A. Yes, it has. The trend shown in the number of customers and total therm usage
72 provided by the Company (AIC Resp. to Staff Data Request ("DR") CB-2.01)
73 signifies actual and projected revenues, therm usage and average number of
74 customers for each of the three rate zones for the years 2007 through the test

75 year of 2014. In this DR response, Zone I shows projected increases in both
76 therm usage and number of customers in the forecasted years of 2013 and 2014
77 over the actual therm usage and number of customers in 2012. Zones II and III
78 show the same forecasted trends. Mr. Jones claims that the actual data for the
79 years 2009-2011 is not weather normalized, but the forecasts for 2013 and 2014
80 are weather normalized. Weather normalized data or not, there is no reasonable
81 basis to interpret the Company's data that projects more customers and more
82 therm sales in the next two years as a declining use trend. If the Company truly
83 expects its sales to decline in the next two years, then one would expect that to
84 be reflected in its own forecast; but, it is not.

85
86 **Q. Mr. Jones dismisses your concern that the Company could over-recover its**
87 **costs should the number of customers increase. How do you respond?**

88 A. Mr. Jones claims that "when the Company adds a customer to the system, the
89 customer also typically uses natural gas. If the customer consumes gas at a rate
90 average for that customer's class, the Company would experience about the
91 same amount of revenue if an average usage customer connected to the system
92 under a SFV 80% or SFV 85% rate design." (Ameren Ex. 23.0, 5:91-95.) I
93 recognize the fact that when a rate design is initially set up and approved for use
94 by the Commission at the end of a rate case, it is set up to recover the approved
95 revenue requirement whether the rate design uses a SFV 80% or SFV 85% rate

96 design. However, if the Company adds customers in excess of the test year
97 projections, the possibility of over-recovery of the revenue requirement exists
98 since more costs are going to be recovered through the fixed customer charge
99 under the Company's proposal. Thus, each additional customer in excess of the
100 test year's projected number of customers, regardless of usage, will only add to
101 the Commission approved revenue requirement.

102 Mr. Jones also indicates that when the Company adds a new customer, it often
103 incurs the cost of free distribution main extensions in addition to other customer
104 service expenses. (Ameren Ex. 23.0, 6:107-109.) I recognize that there are
105 costs incurred when the Company adds new customers to the system, but those
106 infrastructure costs that Mr. Jones refers to are recovered over time through the
107 Customer Charge from all GDS-1 and GDS-2 customers in each rate zone.

108 Those expenses are built-in to be recovered through base rates. A customer
109 who has been on the system and paying Customer Charges for 20 years has
110 most likely paid for the "free" service line extensions and distribution line
111 extensions that allowed him or her to be initially added to the Company's gas
112 system. That same customer now, through payment of his or her monthly
113 Customer Charge, is helping the Company recover the costs of adding a new
114 customer. Although the Company incurs up-front costs when adding a customer
115 to the system, those costs are recovered from all customers over time through
116 the Customer Charge.

Mr. Jones further claims that other variables change over time; and, that energy-efficient plans and other end-use efficiency gains in appliances will reduce per customer usage in the future. (Ameren Ex. 23.0, 6:118-123.) While it is not perhaps unreasonable to expect that these factors may have an effect on future customer usage, Mr. Jones provides no information that would enable a determination of what those effects might be. In contrast, the information the Company has provided clearly indicates an expectation of increased customers and therm sales for the next two years. Should those trends change, then the Company is well capable of seeking new rates and an updated revenue requirement in a future rate proceeding.

Q. Mr. Jones disagrees that increasing fixed cost recovery through the Customer Charge would send improper price signals to customers. How do you respond?

A. Mr. Jones claims that customers receive proper price signals to conserve gas via their gas supply charge. (*Id.* at 7:139-140.) He goes on to explain that the difference in the variable Delivery Charge between 80% SFV and 85% SFV is only about 2 cents/therm and then argues that because the Company's Purchased Gas Adjustment ("PGA") is around 58 cents/therm, any Delivery Service price signal sent is likely to get "lost" within the changes in the cost of gas supply. (*Id.* at 7:143-152.)

Mr. Jones fails to consider that most customers would look at all usage charges together as a way to control their monthly gas expenses and not just one particular type of usage charge, such as the PGA or Delivery Charge, to the exclusion of another. If the collective usage charges are lower, in the winter a customer may increase the temperature in his or her dwelling if lower prices will mitigate the increase in therm usage. If the collective usage charges are higher, however, that same customer may opt to keep the temperature in his or her dwelling lower to keep his or her monthly gas bill more affordable. These are the types of price signals that are meaningful to customers, not the difference between different usage charges such as the PGA or Delivery Charges. The price signals sent through all usage charges together are the most meaningful and effective.

Q. Does Mr. Jones' rebuttal testimony change your recommendation that the Commission order Ameren to retain the current 80% SFV rate design?

A. No, it does not. I continue to recommend that, for now, the Commission leave the fixed cost recovery for GDS-1 and GDS-2 customers through the monthly Customer Charge at the current 80% rather than increase it to 85% as the Company proposes. The Company expresses concern that future revenues will be compromised by declines in gas usage; however, such declines are not reflected in the Company's forecasted customer counts and therm usage for the

GDS-1 and GDS-2 classes. To the contrary, the Company anticipates more customers and more therm usage in 2013 and 2014. (AIC Resp. to Staff DR CB 2.01.) Also, as cited in my direct testimony, the Commission has previously expressed concern that the Company could over-recover its revenue requirement if too many fixed costs are recovered through the monthly customer charges and that concern remains valid. Ameren Illinois Company, ICC Order Docket Nos. 07-0585 et al. (Cons.), 236-237 (Sept. 24, 2008). Furthermore, as discussed above, increasing fixed cost recovery through the Customer Charge would send improper price signals to customers.

III. Response to AG Witness, Mr. Scott Rubin

Q. Does Mr. Rubin agree with the Company's proposed 1.5 times the system-average percentage increase constraint that it applies to certain customer classes?

A. Generally, Mr. Rubin supports a process that constrains the percentage rate increase to any customer class to no more than 1.5 times the system-average percentage increase. (AG/CUB Ex. 3.0, 5-6:110-117.) However, Mr. Rubin contends that the rates paid by certain customer classes remain substantially below the cost of serving the class. (*Id.* at 5:97-106.) He also proposes that if the 1.5 times the system average percentage increase does not result in a customer

class paying its full cost of service over a series of five rate cases, then the Commission should set rate increases so that cost-based rates would be achieved through a series of equal percentage increases over the span of five rate cases. (AG/CUB Ex. 3.0, 6:124-131.)

Q. Do you agree with Mr. Rubin's proposal for the Commission to set rate increases so that cost-based rates would be achieved through a series of equal percentage increases over the span of five rate cases?

A. No, not at this time. It is my opinion that approaching cost based rates on a gradual, non-rate shock basis is still the best way to advance with rate design in this proceeding. The 1.5 times the system average percentage increase constraint does allow progress toward full cost recovery, allows for a reduction in inter-class subsidies and avoids rate shock. That said, Mr. Rubin raises a legitimate truism, which is that the movement toward full cost of service recovery should eventually achieve full cost of service recovery. Therefore, the Commission should evaluate each customer class' progress toward full cost of service recovery in future rate cases and make any changes it deems appropriate at that time.

198 **Q. What is your recommendation regarding Mr. Rubin's proposal for the**
199 **Commission to set rate increases so that cost-based rates would be**
200 **achieved through a series of equal percentage increases over the span of**
201 **five rate cases?**

202 A. I recommend that the Commission reject Mr. Rubin's proposal and instead stay
203 the course with 1.5 times the system average increase constraint for any
204 customer class. In future rate cases, I recommend that the Commission evaluate
205 each customer class' progress toward full cost of service recovery and make any
206 changes it deems appropriate at that time.

207

208 **Q. What is Mr. Rubin's recommendation with respect to the GDS-5**
209 **Experimental Tariff Expansion?**

210 A. Mr. Rubin recommends that the Commission terminate the GDS-5 Experimental
211 Tariff Expansion that allowed peaking customers (GDS-5) to take service under a
212 non-peaking seasonal rate. (AG/CUB Ex. 3.0, 10:193-199.)

213

214 **Q. Do you agree with Mr. Rubin's recommendation to terminate the GDS-5**
215 **Experimental Tariff Expansion?**

216 A. Yes, I do. Ameren's evaluation of the GDS-5 experiment demonstrated that
217 expanding the rate provision beyond the experimental group could result in
218 further revenue erosion. Ameren provides an "Annual Revenue Erosion" table
219 (Ameren Ex. 9.12, 3) for the six customers that qualified for the GDS-5
220 Experimental Tariff Expansion. The table indicates that the Company would
221 have in excess of \$9,300 of annual revenue erosion for the six experimental
222 customers *alone* if the Company recovered the lower GDS-3 Customer Charge
223 instead of the higher GDS-5 Customer Charge in this particular experiment. This
224 revenue shortfall would have to be collected from other non-GDS-5 customers in
225 order for the Company to receive full recovery of its revenue requirement.

226 In addition, as I stated in my direct testimony, Ameren Ex. 9.12 shows that the
227 experimental tariff expansion program meets only one of the three criteria the
228 Commission identified as necessary in order to justify the expansion or extension
229 of the program and I am concerned that extending or expanding the program
230 would lead to an inequitable assignment of costs among customer classes. (ICC
231 Staff Ex. 6.0, 52:979-983.) Accordingly, I recommend that the experimental tariff
232 expansion program for GDS-5 customers be terminated because it does not
233 meet all of the three criteria the Commission identified as necessary in order to
234 justify expansion or extension of the experiment.

236 **Q. What is Mr. Rubin's proposed rate increase for GDS4 customers in Rate**
237 **Zone III?**

238 A. Mr. Rubin indicates that the rates for GDS-4 in Rate Zone III should be increased
239 by between 2.0 and 2.4 times the system-average increase in this case.
240 (AG/CUB Ex. 3.0, 16:302-317) He argues that this size of increase would start
241 making reasonable progress toward moving the GDS-4 class's revenues closer
242 to the cost of serving that class.

243

244 **Q. Do you agree with Mr. Rubin's recommendation to increase GDS-4 rates in**
245 **Rate Zone III by between 2.0 and 2.4 times the system average increase in**
246 **this rate proceeding?**

247 A. No, I do not. For the reasons I indicated earlier, I recommend the Commission
248 continue with the 1.5 times the system average increase constraint for any
249 customer class. Mr. Rubin's proposal exceeds this constraint.

250 Therefore, I recommend the Commission restrict the increase to GDS-4 rates in
251 Rate Zone III to 1.5 times the system average increase.

252

253 **Q. What is Mr. Rubin's recommendation regarding separating Ameren's**
254 **residential class into a heating class and non-heating class?**

255 A. Mr. Rubin recommends that the Commission require Ameren to separate its
256 residential class into a heating class and a non-heating class. Just as the
257 Commission ordered for North Shore Gas Company and Peoples Gas Light and
258 Coke Company ("NS & PGL") in Docket No. 11-0280/11-0281 (cons.) Ameren
259 should be required to prepare a cost of service study in its next rate case that
260 determines the cost to serve non-heating customers separately from the cost to
261 serve heating customers. (AG/CUB Ex. 3.0, 28:545-551.) Bifurcation of the
262 GDS-1 class into separate heating and non-heating classes would better reflect
263 customer class homogeneity and allow for analysis as to whether a non-
264 bifurcated rate design is discriminatory and inequitable. Ameren gas customers
265 should have the same considerations as NS and PGL gas customers in this
266 regard.

267
268 **Q. Do you agree with Mr. Rubin's proposal that the Commission should**
269 **require Ameren to separate its residential class into a heating class and a**
270 **non-heating class?**

271 A. No, not at this time. Ameren currently does not have a method that would allow it
272 to divide the GDS-1 Heating and Non-Heating customers into separate classes.
273 It also does not have a billing system that distinguishes between different
274 categories of customers; however, Ameren indicates that its billing system could
275 be modified to make that distinction. (AIC Resp. to Staff DR CB 7.01, CB 7.02.)

Although I believe that Mr. Rubin's recommendation has merit, criteria and usage thresholds would have to be established before Ameren's billing system could be programmed to distinguish between Heating and Non-Heating customers. Until those criteria are established, Ameren would not be able to customize its billing system or Cost of Service ("COS") study method to determine the cost to serve non-heating customers separately from the cost to serve heating customers. (AG/CUB Ex. 3.0, 28:545-551.)

Q. What is your recommendation regarding Mr. Rubin's proposal that the Commission require Ameren to separate its residential class into a heating class and a non-heating class?

A. I recommend the Commission direct the Company to present information and data with the initial filing of its next gas rate case that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes. This information should include a method for distinguishing between heating and non-heating customers and the estimated costs, the timeframe necessary to program Ameren's billing system to distinguish between heating and non-heating customers, and estimates of the cost to serve the two groups of customers. This would enable the Company and the parties in that proceeding to analyze the data and determine whether creation of a Heating and Non-Heating GDS-1 customer class would better reflect the cost to serve

these two distinct subclasses of customers. At that time, if it is determined that bifurcation of the GDS-1 class is desirable, the Commission could order the Company to include that class bifurcation in the COS study for the following Ameren gas rate filing.

Q. What is Mr. Rubin's recommendation regarding customer charges for GDS-1 customers in the three rate zones?

A. Mr. Rubin recommends that, for purposes of setting rates in this case, there should be no change in Ameren's existing customer charge for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III. That is, the entire rate increase allocable to residential customers, if any, should be recovered through increases in the per-therm distribution charge. (AG/CUB Ex. 3.0, 29:554-559.)

Q. Do you agree with Mr. Rubin's proposal that there should be no change in Ameren's existing customer charge for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III?

A. No, I do not. As I indicated in my direct testimony, there should be small increases to GDS-1 Customer Charges and Distribution Charges in both Rate

Zone I and Rate Zone III. (ICC Staff Ex. 6.0, 36:668, 37:683.) My proposal allows for consolidation of the rates for the two zones. It also allows for an increase that is below the proposed overall Company average increases in rates and that is distributed more evenly between the Customer Charge and the Distribution Charge than is Mr. Rubin's proposal. The overall Company rate increase proposal is 15.46%. If the Commission approves my proposed rate design, there would be a 9% increase in the Customer Charge and a 13% increase in the Distribution Charge for Rate Zone I GDS-1 customers. There would be an 11% increase in the Customer Charge and a 13% increase in the Distribution Charge for Rate Zone III customers. My rate design will mitigate some of the subsidies that the GDS-1 class is providing to other classes by virtue of below average increases proposed for the class.

IV. Response to IIEC Witness, Mr. Brian Collins

Q. Does Mr. Collins take issue with the Cost of Service ("COS") study proposed by the Company?

A. Yes, he does.

Q. Can you describe Mr. Collins' first issue with the Company's proposed COS study?

337 A. Yes. Mr. Collins believes that the COS study proposed by the Company is
338 significantly flawed because it allocates fixed cost transmission and distribution
339 ("T&D") mains, in part, using a volumetric allocation factor. (IIEC Ex. 2.0, 3:53-
340 61.) Specifically, the Company uses the peak and average demand method of
341 cost allocation for T&D mains. Mr. Collins argues that this is inconsistent with
342 general industry practices and should not be adopted by the Illinois Commerce
343 Commission. (*Id.* at 4:81, 7:164.) Mr. Collins recommends that the costs
344 associated with T&D mains be allocated using a design day demand allocator.
345 (*Id.* at 7:155-164.)

346
347 **Q. Do you agree with Mr. Collins' assessment?**

348 A. No, I do not. Contrary to Mr. Collin's assertion, using the peak and average
349 demand method is not inconsistent with general practice in Illinois. The
350 Commission has an established pattern of approving the peak and average
351 method to allocate the costs associated with T&D mains. For example, most
352 recently in Docket Nos. 12-0511/12-0512 (Cons.), the Commission approved use
353 of NS & PGL's COSSs which used a volumetric and demand allocator on all T&D
354 sub-accounts. North Shore Gas Co. & Peoples Gas Light and Coke Co., ICC
355 Order Docket Nos. 12-0511/12-0512 (Cons.), 210-211 (June 18, 2013). North
356 Shore Gas Company and Peoples Gas Light and Coke Company COS studies
357 both used a volumetric and demand allocator on all T&D sub-accounts.

Likewise, the most recent Ameren Illinois Gas rate case (Docket No. 11-0282) used the same allocation methods that are used here, while the most recent Northern Illinois Gas Company ("Nicor") case (Docket No. 08-0363) also used a volumetric allocator for most subaccounts. None of these allocation methods have been challenged in these previous cases and were adopted by the Commission in those dockets for the purpose of setting rates. Ameren Illinois Company, ICC Order Docket No. 11-0282, 135 (Jan. 10, 2012.); Northern Illinois Gas Company d/b/a Nicor Gas Company, ICC Order Docket No. 08-0363, 73 (March 25, 2009.)

Q. What is your recommendation regarding Mr. Collins' proposal that Commission reject the Company's COS study method in favor of one that uses a design day demand allocator for T&D mains?

A. I recommend that the Commission reject Mr. Collins' proposal. The Commission has approved the peak and average method to allocate the costs associated with T&D mains in numerous cases as noted above. In fact, when asked if he was aware of any case, order or proceeding where the Commission has ruled to reject the T&D main allocation factor that the Company has proposed in this case, he replied that he was unaware of any such circumstances. (IIEC Resp. to Ameren DR AIC-IIEC 3.19.) Mr. Collins also replied that he was unaware of any circumstance where the Commission has approved his proposed allocation

method for T&D mains. (IIEC Resp. to Ameren DR AIC-IIEC 3.20.) The peak and average method recognizes two key factors drive investment in transmission and distribution plant. One is the need to meet peak demands, not just for individual classes, but, for the system as a whole. This is why coincident peak demands are used as one component of the allocator. Also, the allocator recognizes the role of year-round demands in shaping transmission and distribution investments through the average demand component. The investments associated with a distribution system can not be justified solely by demands on a peak day. Rather, it is dictated by year-round demands by all ratepayers. The Company's proposal to allocate T&D mains using the peak and average method is appropriate for ratemaking use in this proceeding.

Q. Does Mr. Collins take issue with the Company's proposed COS study methods for any other reasons?

A. Yes, he does. Mr. Collins indicates that the Company's COS study over-allocates costs to large customers because it does not first classify a portion of low pressure T&D mains on a customer component and then allocate the remaining costs on both customer and demand components. (IIEC Ex. 2.0, 8:170, 9:199) Mr. Collins recommends that a portion (40%) of the low pressure distribution main costs be allocated on a customer component. (*Id.* at 9:200-207).

399

400 **Q. Do you agree with Mr. Collins' recommendation that a portion of the low**
401 **pressure distribution main costs be allocated on a customer component?**

402 A. No, I do not. Mr. Collins references the National Association of Regulatory
403 Utility Commissioners ("NARUC") manual that he asserts recognizes that
404 costs associated with the minimum sized distribution main are customer
405 related. (*Id.* at 8:177-184.) However, it is my opinion that Mr. Collins'
406 hypothetical minimum sized distribution main, which he identifies as a
407 customer component, is part of a distribution system that is clearly related
408 to customer demands. Mr. Collins' argument is akin to saying that costs
409 associated with traditional customer-related components of the system
410 (e.g., services and meters) should be considered demand-related
411 because a large industrial customer would require a more costly service
412 line and meter than a smaller customer. This argument is flawed. The
413 costs of that service line and meter are properly considered customer-
414 related because their primary purpose is to serve the individual customer.
415 Similarly, the distribution system has the primary purpose of meeting all
416 ratepayer demands and is appropriately considered demand-related. The
417 Commission has consistently rejected the minimum sized distribution
418 method proposed by others in the past. Ameren Illinois Company, ICC
419 Order Docket Nos. 07-0585, 280 (Sept. 24, 2008.); Northern Illinois Gas

Company, ICC Order Docket No. 08-0363, 77 (March 25, 2009.); Central Illinois Public Service Company (AmerenCIPS) and Union Electric Company (AmerenUE), ICC Order Docket No. 00-0802, 41-43 (December 11, 2001.); MidAmerican Energy Company, ICC Order Docket No. 01-0444, 19 (March 27, 2002.); Northern Illinois Gas Company, ICC Docket No. 88-0277, 298-299 (June 21, 1989.) Previously, the Commission rejected IIEC's proposal for the Company to provide a COS study that uses the minimum sized distribution method when allocating a portion of low pressure T&D mains on a customer component. Central Illinois Light Co., ICC Order Docket Nos. 06-0070 et al. (Cons.), 161 (Nov. 21, 2006).

Q. What is your recommendation regarding Mr. Collins' proposal that a portion of the low pressure distribution main costs be allocated on a customer component basis?

A. I recommend that the Commission reject Mr. Collins' proposal that a portion of the low pressure distribution main costs be allocated on a customer component basis. This allocation should remain a demand-related cost component as it has been presented in the Commission approved gas COS studies for Illinois utilities since Ameren's natural gas rate case Docket No. 06-0070. Ameren's COS study appropriately assigns costs to the various functions and rate classes. Thus, it is an acceptable guidance tool for determining rates in this case.

441

442 **Q. Does Mr. Collins take issue with the Company's proposed rate design for**
443 **GDS-4 customers?**

444 A. Yes, he does. Mr Collins proposes that the Company maintain rate zone specific
445 rates for the GDS-4 class. Mr. Collins opines that separate COS studies for each
446 rate zone should continue to be performed by the Company and each zone's rate
447 for the GDS-4 class should continue to be developed based on those cost of
448 service studies. (IIEC Ex. 2.0, 12:252-261.)

449

450 **Q. Do you agree with Mr. Collins' proposal that each rate zone's rate for the**
451 **GDS-4 class continue to be developed based on separate COS studies for**
452 **each rate zone?**

453 A. No, I do not. The Company proposes uniform Customer Charges (\$600) for the
454 GDS-4 class customers who use less than 10,000 therms/day in each rate zone.
455 Price uniformity, also referred to as Single Tariff Pricing, is a rate design that the
456 Commission has supported and encouraged in past rate cases when the COS
457 study reveals that the charges to recover full cost of service for the class are
458 "close enough" and that those uniform charges collectively will recover the costs
459 to serve each rate zone in the class. (Ameren Illinois Co., ICC Order Docket No.
460 11-0282, 139 (Jan. 10, 2012); Illinois-American Water Co., ICC Order Docket No.
461 07-0507, 97 (July 30, 2008); Illinois-American Water Co., ICC Order Docket No.

02-0690, 121 (Aug. 12, 2003); Illinois-American Water Co., ICC Order Docket No. 00-0340, 29 (Feb. 15, 2001).

Q. Do the Company's proposals in this case reflect progress toward rate uniformity across the rate zones for GDS-4 customers?

A. Yes, they do. The Company proposes a \$700 Customer Charge for Zone I GDS-4 customers who use more than 10,000 therms/day and a \$1,200 monthly Customer Charge for Zone II and Zone III GDS-4 customers that use more than 10,000 therms/day. (Ameren Ex. 9.0, 26:557-562.) The proposed revenues that the GDS-4 customers will provide through the monthly Customer Charges as described above, will generate revenues that will approach full recovery. However, in this rate design proposal, revenue recovery will be approximately \$60,000 short of full costs to serve the class. The Company's proposed rate design provides for uniform charges for all GDS-4 customers who use less than 10,000 therms per month in each of the Company's rate zones and two of the three zones (Rate Zones II and III) will have uniform Customer Charges for customers who use over 10,000 therms per month. (*Id.*) If the Commission approves Ameren's proposed GDS-4 rate design in this proceeding, then the Company should target full price uniformity that recovers full cost of service for the GDS-4 customer class in Ameren's next rate case.

The Company proposes Rider S Delivery Charges at \$0.02 per therm for all rate zones. Ameren proposes to reduce the Rider T Delivery Charges for Zones I and II by 50% with the goal of eventually eliminating all Rider T Delivery Charges for this class in future rate proceedings. Zone III Rider T Delivery customers currently do not have a Rider T Delivery Charge and none is proposed. (*Id.* at 26:563-568.) In the future, when Rider T delivery charges are completely eliminated, the revenues needed for full cost recovery in addition to Customer Charge revenues, will have to be recovered through the Usage Charge.

The Company proposes to increase Usage Charges for all rate zones. Usage Charges for Rate Zone III customers were increased by the percentage increase of the Delivery and Usage target as compared to the present delivery and usage revenues. Rate Zones I and II Usage Charges were increased at a higher percentage than those of Rate Zone III to off-set the proposed decrease in Delivery Charges for Rate Zones I and II. (*Id.* at 26:569-574.)

In order to get to price uniformity over the long-term, some rate zones will have different increases to various charges than other rate zones in the short to intermediate term. The Company's proposed increases in this proceeding for GDS-4 customers takes their rates a step closer toward price uniformity and potentially sets this customer class up for full price uniformity and full class revenue recovery in the Company's next rate case.

Q. What does Mr. Collins propose regarding rate design for GDS-4 customers?

A. Mr. Collins recommends that the existing rate design for the Rate Zone II GDS-4 class be maintained and that the current delivery and demand charges be increased by the average increase for the GDS-4 class. He argues that this will prevent intra-class rate shock within Rate Zone II's GDS-4 class. Mr. Collins does not make any specific rate design proposals for the other two rate zones. (IIEC Ex. 2.0, 14:301-306.)

Q. How do you respond to Mr. Collins' recommendation that the existing rate design for GDS-4 customers in Rate Zone II be maintained?

A. The Company's facilities are designed and installed to meet customer's peak demand. Ameren's rate design is intended to send proper price signals on the basis of peak demand. Ameren's proposal to eliminate the separate demand charges for customers who use less than two million therms versus those who use more than two million therms is a move toward inter- and intra-class price uniformity for the GDS-4 class. This proposal also intends to mitigate undue customer bill impacts by limiting the rate increases to 1.5 times the system average.

Mr. Collins' testimony discusses a hypothetical situation where a customer using over 2 million therms could receive an increase of up to 1.9 times the system

average. (*Id.* 14:298-300.) However, the Company has indicated that a very small percentage of customers (only 12.5% of the customers in the class according to the sample size) would even have the potential to exceed the 1.5 times the system average increase. (Ameren Ex. 9.0, 29:613-629.) No rate design proposal can be a perfect fit for all customers and, in this case, some GDS-4 customers in Rate Zone II have the potential to see their rate increase above the Company's intended 1.5 times the system average increase. The Company has attempted to mitigate rate shock to all customer classes in all rate zones while forging ahead with the Commission's preference to move toward price uniformity. IIEC's proposal does not allow for movement toward price uniformity and its argument that the rate increase would potentially exceed the Company's proposed rate increase constraint of 1.5 times the system average only applies to a very small percentage of customers.

Q. What is your recommendation regarding IIEC's GDS-4 rate design proposals?

A. I recommend that the Commission reject IIEC's GDS-4 rate design proposals for all rate zones. The Commission has been moving toward price uniformity for customers that have similar usage and load characteristics. The Company's proposals for the GDS-4 class in each rate zone reflect movement toward price uniformity while attempting to mitigate rate shock for all customers in the class. While there is the potential to exceed the Company's proposed rate increase

constraints for a small percentage of customers, Ameren's proposed rate design for the GDS-4 class is reasonable and it is my recommendation that the Company's proposed rate design be approved for rate making in this proceeding.

V. Response to AG/CUB Witness, Mr. David Effron

Q. AG/CUB witness Effron proposes an adjustment to increase the test year sales and operating revenues because he believes "the reductions to industrial and transportation sales and revenues forecasted by the Company are not taking place." (AG/CUB Ex. 2.0, 14:285-286.) Do you have any comments?

A. Yes. If an adjustment is warranted, the appropriate adjustment would be to the billing determinants used to calculate rates rather than to the revenues to be recovered. An adjustment to the revenues would not change the total test year revenue requirement to be recovered. It would merely produce offsetting changes in the amount of test year revenues at present rates and the amount of the increase necessary to produce test year revenues at proposed rates. Company witness Althoff agrees with the offsetting nature of such a revenue adjustment. (Ameren Ex. 24.0, 3:57-60.)

566 **Q. Do you believe such an adjustment to the billing determinants is**
567 **warranted?**

568 A. No, I believe the adjustment is not necessary. The billing determinants used to
569 set the rates are reflected in AIC's Schedule E-5. Ms. Althoff provided an
570 analysis which shows that the billing determinants on Schedule E-5 do not reflect
571 the declines in therms sales about which Mr. Efron expressed concerns based
572 on his review of other schedules. (AB/CUB Ex. 2.0, 12:246-255; Ameren Ex.
573 24.0, 4:77-82; Ameren Ex. 24.1) Ms. Althoff states that AIC's Schedule E-5 test
574 year billing determinants and resulting base rate delivery service revenues are
575 accurate, and she has performed a comparison of total non-residential present
576 rate revenues for the twelve-month period ended April 2013 to test year non-
577 residential present rate revenues. She claims that her comparison confirms the
578 accuracy of the forecast and demonstrates that AIC is not under-forecasting
579 present non-residential rate revenues as Mr. Efron suggests. (Ameren Ex. 24.0,
580 4:77-82). For these reasons, I believe Mr. Efron's adjustment is not necessary.

581
582 **Q. Does this conclude your rebuttal testimony?**

583 A. Yes, it does.